

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

Annual Compliance Report, 2013

Docket No. ACR2013

CHAIRMAN'S INFORMATION REQUEST NO. 11

(Issued February 28, 2014)

To clarify the basis of the Postal Service's estimates in its FY 2013 Annual Compliance Report (ACR), filed December 27, 2013, the Postal Service is requested to provide written responses to the following questions. Answers should be provided to individual questions as soon as they are developed, but no later than March 6, 2014.

1. The table below is based on data from Library references USPS-FY12-13 and USPS-FY13-13. It shows total avoided dropship cost per pound by shape and entry point.

Total Dropship Avoided Cost Per Pound by Shape FY 2012 and FY 2013				
	FY 2012	FY 2013	Difference	Percentage
	(1)	(2)	(3)=(2)-(1)	(3)/(1)
<b>Letters</b>				
DDU	\$0.439	\$0.478	\$0.039	8.9%
DSCF	\$0.355	\$0.395	\$0.040	11.2%
DNDC	\$0.284	\$0.315	\$0.030	10.7%
<b>Flats</b>				
DDU	\$0.283	\$0.265	-\$0.018	-6.3%
DSCF	\$0.236	\$0.216	-\$0.020	-8.6%
DNDC	\$0.206	\$0.185	-\$0.022	-10.4%
<b>Parcels</b>				
DDU	\$2.196	\$11.415	\$9.219	419.9%
DSCF	\$1.997	\$11.069	\$9.072	454.3%
DNDC	\$1.513	\$8.985	\$7.472	493.8%
<b>Average</b>				
DDU	\$0.361	\$0.367	\$0.006	1.6%
DSCF	\$0.300	\$0.306	\$0.005	1.8%
DNDC	\$0.251	\$0.252	\$0.002	0.7%

The avoided dropship cost per pound increased significantly for parcels between FY 2012 and FY 2013. This increase also reduced the passthrough of the avoided cost by entry to less than 6 percent. The average avoided cost per pound across shape increased less than 2.0 percent for each entry point, while the unit avoided dropship costs within shape by entry point exhibited more volatility. A review of the library reference shows that the proximate cause of this aberration is a substantial reduction in the number of parcels. However, assuming nothing else changed, an across-the-board reduction in the number of parcels should cause a corresponding reduction in volume variable cost, which should leave the unit costs for parcels unchanged. This would seem to be borne out by the minimal year-to-year change in the average cost per pound across shape. This suggests that there may be a problem in the model or the input data.

- a. Please explain the reason for the change in the cost per pound for parcels and the other shapes.
  - i. If something in the architecture of the library reference is causing the apparent anomalous results or if there are anomalies in the input data, please explain what steps the Postal Service will take to correct the library reference so that it produces accurate costs per pound.
  - ii. If the change is due to an increase in handling or other costs, please explain what operational changes have occurred that have led to these increases.
- b. Please discuss the ramifications for the Postal Service and mailers of pricing incentives for parcel dropship discounts based on passthroughs less than 6 percent.

By the Chairman.

Ruth Y. Goldway